

CORPORATE AND POSTAL BUSINESS LAW SECTION
LAW DEPARTMENT



November 29, 2016

Stacy L. Ruble
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket Nos. R2014-6 and MC2014-21

Pursuant to Order No. 2097 in Docket Nos. R2014-6 and MC2014-21, the United States Postal Service ("USPS") presents its Data Collection Report on PHI Acquisition, Inc.'s Negotiated Service Agreement with USPS. The Postal Service is filing the unredacted version of the report under seal, as it contains commercially sensitive information. The Postal Service herein incorporates by reference the original Application for Non-Public Treatment in this docket, for the protection of this material.

Very truly yours,

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**PHI ACQUISITIONS NEGOTIATED SERVICE AGREEMENT
DATA COLLECTION REPORT
(JULY 1, 2015 – JUNE 30, 2016)**

INTRODUCTION:

Pursuant to Order No. 2097 in Docket Nos. R2014-6 and MC2014-21, the United States Postal Service (“Postal Service”) presents its Data Collection Report (“DCR”) on the PHI Acquisitions, Inc.’s (“PHI”) Negotiated Service Agreement (“NSA”) with the Postal Service.

DATA COLLECTION REPORT:

1. PHI volumes entered by qualifying price category for the contract year.

See Appendix A, page 1 (1_Total Volume Revenue Yr. 2).

2. PHI postage paid by qualifying price category for the contract year.

See Appendix A, page 1 (1_Total Volume Revenue Yr. 2).

3. PHI package fulfillment volumes by service level.

See Appendix A, page 2 (2_Package Fulfillment).

4. Adjusted Annual Baseline Threshold and the resulting Quarterly Baseline Volumes that will be used for the next contract year to establish PHI eligibility for rebates and payment of fines, and the underlying calculations.

See Appendix A, page 3 (3_Contract Volume).

5. The rebate paid to or penalty paid by PHI (if any) and the calculations underlying their determination.

See Appendix A, page 4 (4_Year 2 Rebate).

PHI earned an aggregate rebate of \$2.215 million on the eligible Standard Mail volume since it exceeded the aggregate volume thresholds for Agreement Year 2.

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PHI did not participate in any other USPS volume/revenue growth incentive program during Agreement Year 2.

ADDITIONAL DATA REQUESTED BY THE COMMISSION PURSUANT TO ORDER NO. 2097:

1. Calculation of the change in net financial position of the Postal Service as a result of the PHI NSA, using the Commission's methodology.

See Appendix A, page 5 (5_Commission's Methodology).

2. PHI-specific costs, volumes, and revenues by qualifying price category for the contract year. If PHI-specific costs are not available, the source and derivation of the costs that are used shall be provided, including a discussion of the currency and reliability of those costs, and their suitability as a proxy for mailer-specific costs.

See Appendix A, page 1 (1_Total Volume Revenue Yr. 2).

3. An analysis of the effects of the Agreement on the net overall contribution to the institutional costs of the Postal Service.

See Appendix A, page 6 (6_USPS Net Value).

Although Agreement Year 2 shows a negative impact to overall contribution, the agreement to date shows a net of over \$860 thousand in positive contribution. Thus, the Postal Service does not anticipate that this Agreement will cause negative impact to the net overall contribution to the institutional costs of the Postal Service over the total term of this Agreement. Appendix A, page 6 (6_USPS Net

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Value) shows volume and negative change to net contribution of -\$1.070 million for Agreement Year 2. The PHI Standard Mail weighted average cost per piece is higher than originally modelled in PRC Docket No. MC2014-21. The new weighted average now includes the unit costs specifically estimated for pieces qualifying for Flats Sequencing System (FSS) rate categories. The FSS rate categories were implemented during Agreement Year 1, and new cost models were created in FY2015 to address those changes. In Agreement Year 2, the PHI weighted average per piece cost has increased across the new set of rate categories for which cost estimates are available. See Appendix A, page 1 (1_Total Volume Revenue Yr. 2) for the impact of PHI FSS costs.

4. A discussion of the changes in operations of the Postal Service that result from the Agreement.

By limiting PHI Eligible Mail to Carrier Route flats (Saturation, High Density Plus, High Density, and Basic) and FSS flats which bear a full-service Intelligent Mail Barcode (“IMb”), the structure and eligibility requirements of the NSA create economies of scale and scope, which will enhance the preparation of all Flats mail. Other than these eligibility requirements, no components of this Agreement are specifically designed to enhance the performance of mail preparation, processing, transportation, or other functions. Therefore, no discussion was provided.

5. An analysis of the impact of the Agreement on the marketplace, including a discussion of any and all actions taken to protect the marketplace from unreasonable harm.

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The Postal Service monitors the performance of, and investigates significant changes in, mailing activity among large mailers including large retail, e-commerce, and catalog industry mailers. To date, we have not observed any significant performance issues that directly or indirectly relate to this NSA. Thus, we do not believe the NSA has caused unreasonable harm to the marketplace. While the Postal Service does not anticipate this agreement will in the future cause any unreasonable harm to the marketplace, we will continue to monitor and investigate significant changes in mailing activity and take appropriate action to protect the marketplace from unreasonable harm.

6. A list of all of PHI's acquisitions and divestitures that occurred during the contract year, and the volumes and threshold impacts associated with any such acquisitions or divestitures.

There were no acquisition or divestiture activities by PHI during Agreement Year 2, and therefore, no volume and threshold impact.